

**SELECTED LOCAL
GOVERNMENTS IN HUNGARY**

**LOCAL REVENUES AND
POLICY IMPLICATIONS**

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LIST OF ACRONYMS

CG	Central Government
CPI	Consumer Price Index
GDP	Gross Domestic Product
LG	Local Government
LSGA	Local Self-Government Act
PIT	Personal Income Tax
PT	Property Tax
VAT	Value Added Tax

EXECUTIVE SUMMARY

The study is part of a project that aims to build financial capacity in local governments in Hungary. It is based on the findings from a selected sample of six municipalities: Nagykanizsa, Oroshaza, Püspökladány, Szentes, Szolnok and Tatabánya.

In general, local government revenues increased in nominal terms during the period 1993-1997. The financial situation of the local governments, however, is substantially different when their revenues are discounted by inflation. Total city revenues in real terms have dropped over time for all the cities. The losses in real revenue from 1993 to 1998 may be as large as 40 percent (Püspökladány) and as low as 18 percent (Szolnok). Given this trend, it may be argued that the financial situation of these cities, and perhaps that of other local governments in Hungary, is fairly critical. The main drops have been in revenue sources from capital and investment funds.

Capital funds from own-source revenues are becoming less important in the revenue structure. Revenue from the sale of municipal assets, particularly real estate (privatization), has been generally going up until 1997. However, in 1998 this trend is beginning to change.¹ The reliance on sales of municipal assets is becoming less sustainable. The drastic reduction in revenues in Püspökladány, as pointed out above, is related to drops in capital funds from asset management and other revenues from assets.

Though there have been revenue losses in real terms that have affected most revenue sources, there have also been important changes in the composition of their revenue structure. In general, it may be argued that there is a mild trend to gradually depend less on the normative grant. In contrast to the trend in the normative grant, which generally is the most important revenue source of local governments, is the gradual increase in the relative importance of own local revenues as a source of local government finances. In Szolnok, for instance, the revenues from the normative grant (27 percent) and those from own local revenues (26.8 percent) are about the same. It is interesting to note that revenues from local taxes have substantially gained importance in the revenue structure of local governments. Though several of the taxes are still based on levies in absolute values, which tend to erode with inflation, municipalities have gradually updated these figures during the period analyzed. Local taxes may range between 5 percent and 12 percent of local government total revenues. In 1993 local taxes were as low as less than 1 percent and up most 7 percent of total local government revenues.

However, as a first step to solve financial problems, local government financial management has primarily relied on the sale of municipal assets. Though this has worked for several years local governments have already come to realize that this is not a sustainable approach in the long run. Some local governments (for instance, Szolnok and Tatabánya municipality) who have planned to sell more of their assets have already had difficulties in finding purchasers. As a consequence they have had to resort to less

¹ It must be noted that figures for 1998 are estimates. Therefore, the results based on this year in particular must be taken as tentative.

politically attractive, but more stable solutions, such as raising some of their local tax rates and user fees.

Several policy implications emerge from the analysis of the revenue structure of the selected local governments. First, the current financial situation suggests that local governments need to look for alternatives for capital financing, other than sales of municipal assets, which will become unsustainable. One obvious source would be borrowing from financial institutions or from private investors (bond issues). However, either of these two options requires a solid financial position in order to be creditworthy. One strategy for local governments is to strengthen their recurrent revenue sources. This, however, requires making a much greater use of local taxes and modernizing them. It is important to note that the cities of Szentes and Tatabánya already report capital revenues from the sales of bonds. The right financial policies, however, in order to be effective, require the modernization of local tax designs and local tax administration. Also, in order to attract private investors, greater transparency of both local finances and financial management is needed.

SELECTED LOCAL GOVERNMENTS IN HUNGARY

LOCAL REVENUES AND POLICY IMPLICATIONS

REVENUE ASSIGNMENT AND STRUCTURE¹

Local governments generally are responsible for the provision of primary and secondary education, health services, public housing, street maintenance and construction, public lighting, cultural activities, social welfare (nurseries, homes for the elderly), parks and playgrounds. Some of the local responsibilities, such as water supply and garbage collection, have generally been given in concession to public and private enterprises. For the most part, expenditure functions assigned to local governments appear both logical and in line with those found in most countries.

Revenue Sources

The Local Self-Government Act provides for a range of revenue sources to finance local government functions. They include: five local taxes (tax on business, tax on plots, tax on buildings, tax for communal services, and a tax on tourism), a share on the central government personal income tax (currently 20 percent based on the origin of tax revenues)³ and several specific transfers. The latter comprise the following revenue sources: a specific magnitude of the PIT for equalization, a central government fiscal transfer (normative grant), and several targeted matching grants and non-matching grants for investments. In addition, local governments share in profits from entrepreneurial activities, receive proceeds from the disposition of rental and commercial properties, and borrow to finance investments and to meet overdrafts or budgetary shortfalls.

² THIS PAPER HAS BEEN DEVELOPED AS PART OF A PROJECT THAT AIMS TO BUILD FINANCE CAPACITY IN LOCAL GOVERNMENTS IN HUNGARY, SPONSORED BY THE US AGENCY FOR INTERNATIONAL DEVELOPMENT AND CARRIED OUT BY THE URBAN INSTITUTE AND METROPOLITAN RESEARCH INSTITUTE, UNDER THE DIRECTION OF KATHARINE MARK AND JÓZSEF HEGEDÜS. MUCH OF THIS STUDY IS BASED ON DATA COLLECTED BY ANDREA TÖNKÅ AND MIHÁLY LADOS, AND CASE STUDIES PREPARED BY ROBERT KOVÁCS, KATALIN MITRO, ZSOLT PATAKI, ORSOLYA SEBŐK, AND ANDREA TÖNKÅ.

³ The PIT share usually changes yearly, and its magnitude is established in the annual budget law.

Fiscal Transfers⁴

Generally the main source of revenues are central government (CG) fiscal transfers. They typically account for approximately one third of total municipal revenues. The normative grant which is primarily for current expenditures is the largest of them. Its relative weight in LGs revenue structure may fluctuate between 43.2 percent (Püspökladány) and 17.1 percent (Oroshaza) of municipal yearly revenues. The normative grant covers primarily recurrent expenditures on education. Generally, about two thirds or more of this grant is directed to cover expenditures in education. The rest of the grant, about one third or less is channeled to finance expenditures on social purposes and other local activities. Other grants especially for capital expenditures (matching and non-matching) are small (i.e., less than 5 percent) or fairly often they are simply nonexistent as part of the municipal revenue structure. The normative grant, as well as other CG grants are yearly decided by the Ministry of Finance.

The *revenue sharing system* is another important mechanism in local government finance. It currently includes the share in the personal income tax (PIT) and the share in the vehicle tax. The 20 percent share in the PIT may represent between 7 to 13 percent of total municipal revenues. Of course this share may vary substantially in some particular cases since it is based on the origin of the fiscal resources. Local governments retain 50 percent of the vehicle tax and transfer the difference to the CG. Based on the current tax design this is a revenue source almost insignificant for local governments, as it is generally equivalent to less than 1 percent of municipal annual revenues.

Own Revenues

Own recurrent revenues include local taxes, user charges, profits from entrepreneurial activities, and proceeds from the disposition of rental and commercial properties.

Taxes. The Act on Local Taxes defines the municipal taxes. The 1990 Act assigns five taxes to local government: 1) the business tax; 2) the communal tax (i.e., a poll tax and/or payroll tax); 3) the urban land tax; 4) the property tax on buildings; and 5) the tourism tax. With the exception of the business tax, local taxes are the same as those collected and administered by the local councils under the previous regimen.

In practice, local governments must decide, at their discretion and by resolution of their respective councils, which of these taxes they want to levy in their jurisdictions. Some LGs for instance do not levy urban land taxes, tourism tax or the communal tax (poll tax).

⁴ A separate background paper has been prepared on the topic of fiscal transfers; therefore, this paper will only make brief references on the subject whenever relevant.

Some LGs (e.g., Tatabánya) levy only the communal tax on businesses as a form of a payroll tax. There are, however, some restrictions on levying taxes: 1) two taxes may not be levied on the same object; 2) pre-existing centrally mandated tax exemptions may not be restricted; and 3) locally set tax rates may not exceed the centrally mandated maximum rate set forth in the Act. It is important to note that all local taxes may be deducted as costs (by individuals and businesses) from the central government's PIT and Corporate Tax.

The respective tax bases, tax rates and tax exemptions as established by the CG are included in Table 1.⁵ Also, Tables 2 to 7 include the tax bases, tax rates, and tax exemptions as established by six selected municipalities: Nagykanizsa, Orosháza, Püspökladány, Szentes, Szolnok and Tatabánya. A summary chart of which taxes are levied by each city is included below.

Chart 1
Local Taxes Levied in Selected Municipalities: Summary

Cities	Business Tax	Communal Tax	Idle Land Tax	Buildings Tax	Tourism Tax
Nagykanizsa	Yes	Yes	No	Yes	No
Oroshaza	Yes	Yes	No	Yes	No
Puspokladany	Yes	No	Yes	No	No
Szentes	Yes	Yes	No	No	Yes
Szolnok	Yes	No	No	Yes	No
Tatabanya	Yes	Yes	No	Yes	No

Source: Tables 2 to 7

Business Tax. The business tax is a gross turnover tax levied on manufactures. Retail sales are not covered by this tax. Also, the law differentiates between businesses classified as temporary activity and non-temporary activity. The maximum rate as set by the CG for temporary activity is HUF 5,000 per day, and that for non-temporary activity is 1.4 percent⁶. The business tax may be levied on all enterprises, public and private, on gross sales revenue net of the VAT and other consumption taxes. All businesses liable for this tax must report their annual sales to the corresponding municipality. There is, however, some ambiguity regarding registration and place of business.

Some reforms have been introduced regarding deductions from the tax base. Since 1998, the cost of materials may be deducted which of course will have an impact on current tax yields. This expected reduction will most likely have to be compensated for by increases in the tax rate. However, this would only be possible if the actual rate being collected by LGs is not already binding with the maximum collectable rate as established

⁵ All tables are located in the annex of this report.

⁶ For 1999 the rate will increase to 1.7 percent and for year 2000 the rate will be 2.0 percent.

by the CG. In four out of the six municipalities examined, the actual rates are below the maximum allowable rate. Therefore, there is still room for adjustments in tax rates. Some municipalities are already considering setting the maximum rate to compensate for future revenue losses. For those municipalities already applying the maximum rate (e.g., Nagykanizsa and Tatabánya), they could legally increase it from 1.4 percent to 1.7 percent in 1999. Also, some of them could increase the tax base, lowering the cut-off of the yearly turnover value that makes business taxable.

Communal Tax. This tax can be levied on household dwellings (owned or rented) and on businesses. If on dwellings, it is payable by the occupant at a maximum rate of Ft. 12,000 per dwelling, regardless of the number of dwellers per household. From a revenue viewpoint the communal tax on dwellings partially substitutes for taxes on real estate⁷. If levied on enterprises, the communal tax is payable at a maximum rate of Ft. 2,000 per employee. The latter resembles a payroll tax, which makes the use of labor more costly. However, its potential effect depends on the absolute amount of the tax. The GNP per capita in Hungary is about USD 6,730 (equivalent to Ft. 1,346,000). From this perspective, the communal tax would be only equivalent to less than one percent (0.8 percent) of the average annual income, which in principle would not be expected to distort economic behavior.

Land Tax. The land tax applies to urban land only and is levied on the property owners of idle (unimproved) lots. Its maximum tax rate is Ft. 200 per square meter, or 3 percent on the corrected value of the plot. The corrected value is given by 50 percent of the assessed value, as determined by the local government. The assessed value is supposed to reflect the actual market value of land. Publicly owned land is also taxable. In the six cities examined only one of them (Püspökladány) actually levies this tax. Also, the tax rate currently applied is HUF 15 per square meter, which is substantially below the maximum rate allowed. Ideally, the tax rate should be associated with the market value of land rather than the size of the lot. This would in principle make the tax more equitable and would be more likely to attain the policy objectives implicit in its design.

Property Tax on Buildings.⁸ Local governments can legally levy property taxes on privately owned buildings, such as flats, single family houses, summer cottages, garages, storehouses, workshops, and other residential housing. They can also levy taxes on commercial and industrial property. The tax may be levied on area size (square meters), or on the assessed value of the property. The maximum tax rates as established by the Central Government are HUF 900 per square meter, or 3 percent of the corrected value. The corrected value is defined in the same way as that that applied to the land tax, as described above.

⁷ However, a property tax could be in principle more equitable than a communal tax since it would be based on the market value of property.

⁸ In this paper, the terms *Tax on Buildings* and *Property Tax* refer to the same type of tax and are used interchangeably.

Four of the six selected municipalities for this analysis actually apply a tax on buildings. However, only three of them apply this tax on residential property. Keeping residential property out of the tax base constitutes one of the main issues of current property taxation in Hungary. Also, out of the two tax-bases option to tax buildings, the four cities use as the tax base the area size (square meters) rather than the adjusted marked value of the buildings. This is the other major issue of the current system. The cities of Püspökladány and Szentés do not levy the property tax at all. Szentés, as noted above, does not impose taxes on urban idle land either. In Orosháza and Tatabánya, similar to other cities in Hungary, when the tax is computed on the area size, the total size is reduced by 25 square meters (living space) per dweller. This tax exemption practically leaves most housing units out of the tax base. Szolnok, in contrast to the above two cities, levies housing taxes on most housing units i.e., Szolnok does not apply the 25 square meter type of exemption. All poor social flats less than 100 square meters in small municipalities are tax exempt, except in areas of tourism. In addition, properties owned by any income tax exempted entities (such as churches, budgetary institutions and public service organizations) are also tax exempt.

Clearly, the tax system based on area size is fairly simple but also very inequitable. Most of the cities are interested in implementing a tax based on the market value of property. However, this option requires more information, which changes constantly. As such, the cities would need to implement a cadastre, which requires a permanent updating system to be effective. It must be noted that more than 80 percent of housing units are privately owned and market transactions occur with frequency. Therefore, it appears that there is a significant amount of information regarding property values. Also, sellers must pay a duty on real state transfers and records are kept regarding declared transaction prices. However, it may be expected that sellers under-report real estate prices to avoid taxes. An empirical analysis should be carried out to determine the magnitude of underassessment by value classes. For this purpose, public registers and their corresponding market values should be examined. This information would be fundamental to assist in the transition from area-based property taxation to market-value-based taxation.

Tourism Tax. The current tax on tourism includes rents, guest nights, and summer cottages. The maximum rates as established by the CG are HUF 300 per night for guests, 4 percent on the rental fee, and HUF 900 per square meter for cottages. Before the tourism tax there was a local fee on tourism that was collected only in resort areas. The current taxes may be levied by any local government. Only the city of Szentés, out of the six cities included in this analysis, levies the tourism tax. The city collects HUF 100 per night per guest.

User Charges. These types of charges refer mainly to the users of public utilities and other local services, such as garbage collection, gas and water supply. However, the collection of user fees generally is not the responsibility of the municipalities, but rather of the public utilities or enterprises that provide these services. Key elements regarding user fees are whether or not they recover the cost of providing the services, and if not, how the

difference is financed (subsidized). Though the administration and operation of several of the above services are generally carried out independent of the city's administration and operation, the existence of potential subsidies would affect directly the finances of a local government. As part of the own recurrent revenues of local governments, there is only one budget item that relates to charges. Revenues from this source may fluctuate between zero percent for most cities and generally less than 3 percent in those cities that collect some type of charges. Revenues from this source display a negative trend over the analyzed period (1993-1998). This negative trend seems to reflect the cities' policy on privatization and concession of public utilities to autonomous entities.

Capital Revenue Sources

Capital revenues are fairly important for some of the cities analyzed. In 1998, Szentes and Tatabánya estimated 26 percent and 30 percent of their total revenues from these sources. In Püspökladány capital revenues for the same year are only equivalent to about 6 percent of their revenue budget. The main capital revenue sources are comprised by revenues from asset management, sale of assets, targeted subsidies from the CG for capital outlays and in a few cases, bond issues.

Revenue Trends and Performance

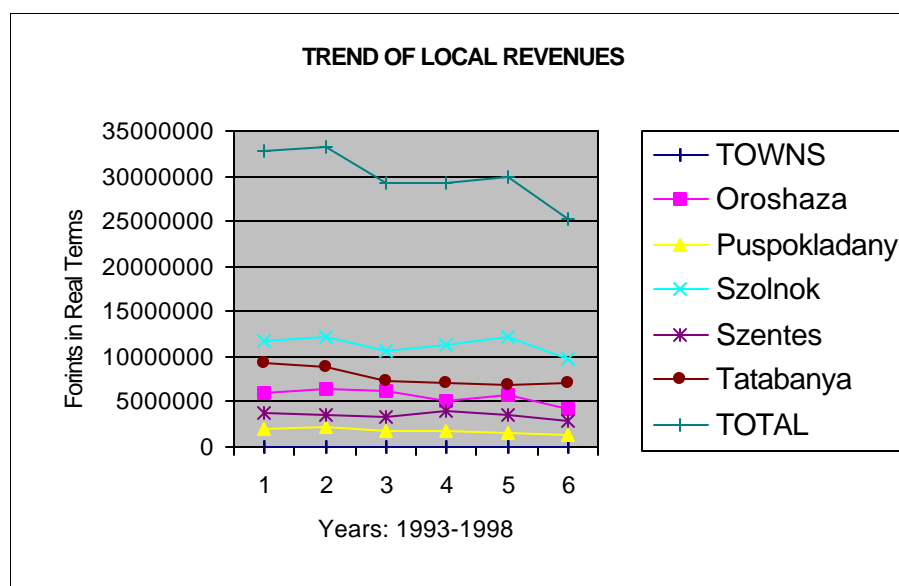
The analysis of the revenue performance of the selected cities covers a six-year period: 1993-1998. For the current year (1998) the budgeted figures were used. In general, local government revenues increased in nominal terms during the period 1993-1997. Most of the cities, however, indicate nominal revenue losses in 1998. The financial situation of the LGs, however, is substantially different when their revenues are deflated by the consumer price index (CPI). Total city revenues in real terms have dropped over time for all the cities. The losses in real revenue from 1993 to 1998 may be as large as 40 percent (Püspökladány) and as low as 18 percent (Szolnok). Given this trend, it may be argued that the financial situation of these cities, and perhaps that of other local governments, in Hungary, is fairly critical.

The above situation has been aggravated during this fiscal year by the drop in nominal revenues. The main drops have been in revenue sources from capital and investment funds. Capital funds from own-source revenues are becoming less important in the revenue structure. Revenue from the sale of municipal assets, particularly real estate (privatization), has been generally going up until 1997. However, in 1998 this trend is beginning to change. The reliance on sales of municipal assets is becoming less sustainable. The drastic reduction in revenues in Püspökladány, as pointed out above, is related to drops in capital funds from asset management and other revenues from assets.

Though there have been revenue losses in real terms that have affected most revenue sources, there have also been important changes in the composition of their revenue structure. In general, it may be argued that there is a mild trend to gradually depend less on the normative grant. The share in the PIT, however, has gained some

importance in the local revenue structure. This may be due to the greater income elasticity of the tax as compared to other sources. There are, however, some exceptions to this trend as illustrated by the PIT in the city of Tatabánya. The mirror image to the trend in the normative grant, which generally is the most important revenue source of local governments, is the gradual increase in the relative importance of own local revenues as a source of local government finances. In Szolnok, the revenues from the normative grant (27 percent) and those from own local revenues (26.8 percent) are about the same. However, in the city of Püspökladány revenues from the normative grant (43 percent) are relatively high with respect to the city's own revenue (17 percent).

It is interesting to note that revenues from local taxes have substantially gained importance in the revenue structure of local governments. Though several of the taxes are still based on levies in absolute values, which tend to erode with inflation, municipalities have gradually updated these figures during the period analyzed. Local taxes today range between 5 percent and 12 percent of local government total revenues. In 1993 local taxes were as low as less than 1 percent and at most 7 percent of total local government revenues.



Policy Implications

Several policy implications emerge from the analysis of the revenue structure of the selected local governments. First, the current financial situation suggests that local governments need to look for alternatives for capital financing, different to sales of municipal assets, which

will become unsustainable. One obvious source would be borrowing from financial institutions or from private investors (bond issues). However, either of these two options requires a solid financial position in order to be creditworthy. One strategy for local governments is to strengthen their recurrent revenue sources. This, however, requires making a much greater use of local taxes and modernizing them. It is important to note that the cities of Szentes and Tatabánya report capital revenues from the sales of bonds.

Also, it is also evident that there is a need for modernization of local taxes. For

instance, the property tax (PT) is based on the physical *size⁹ of the properties rather than their market value¹⁰*. In addition, in the cities analyzed, the PT is primarily levied (if at all) on non-residential property. Clearly, there is a need to expand the PT tax base to residential property, among other things, through the elimination of tax exemptions, particularly those that refer to living-space and first-own-flat. Furthermore, the vehicle tax, which is a national tax shared with local governments, is based on the weight of the vehicles rather than their market value.

REVENUE AUTONOMY

This section addresses the question of whether local governments have the legal autonomy to set their own revenues, so that they can provide the public goods and services for which they are responsible. Also, depending upon whether local governments have adequate revenue autonomy, they may be more or less accountable, financially and politically, for the adequate provision of the local services assigned to them.

Revenue Authority

Specifically, this part analyzes the authority to establish local taxes and set their tax rates. Also, it is examined the authority to determine user charges of local services and the possibility of local governments, or their public enterprises, to recover the cost of the services they provide.

Taxation

Under the section *Own Revenues* above it was partially discussed that the CG has the authority to establish local taxes. However, local governments have the discretion to make use of them and select the level of the tax rates subject to a maximum rate established by the corresponding tax law. In this sense, it could be argued that local governments have some level of autonomy regarding their local tax sources. It was also pointed out that several of the local governments actually do not levy all the taxes that they legally could, and for those that they apply and choose the tax rates, they have actually established them often below the maximum rate allowable.

User Charges and Fees

Local governments have the autonomy to set their own user charges and fees. User charges are generally agreed upon by the board of directors of the different companies,

⁹ *However, it should be noted that the central government law on the property tax allows for the use of market values, and it is up to the local governments to decide whether to use size or market value.*

¹⁰ There are two municipalities in Hungary (Nyiregyhaza and Németskér) that currently use market values.

public enterprises, or mixed enterprises, where the local government is the main owner or shareholder. In the case of services given in concession to the private sector, adjustments in charges are agreed on with the local government. Therefore, in principle, local governments may recover the full cost of service provision.

Cost Recovery

Autonomy in regard to user charges (and some fees) is important because, depending on whether or not local governments have the discretion to set the prices of the services they provide, they can be more or less accountable (financially and politically) for their adequate provision. If a local government does not have the autonomy to set a user charge to recover the full cost of the operation of a particular service, it cannot be expected to make an adequate provision of such service. Also, from an economic efficiency viewpoint, if the beneficiaries of a local service are not charged adequately for the benefit they receive (technically the marginal cost of their provision), then one cannot expect an efficient allocation of economic resources to the provision of the particular service. This means that the amount of the service, its quality, and the actual beneficiaries will not be correct.

In Nagykanizsa, for instance, the charge for garbage collection recovers the operation and administration of the service. However, the fee does not include depreciation costs. A private firm, who is not responsible for new investments, provides this service. The cost of new investment is the responsibility of the local government. However, the city has the autonomy to set the solid waste collection fee. In principle, amortization costs should be incorporated in the price structure of the service. In general, the cities have the autonomy to set the fees and give the service under international competitive bidding to the private sector. Regional companies owned by the local governments in the region generally provide potable water and sewer services. The companies have the legal authority, through their board of directors, to set the charges. In Oroshaza, for instance, there are different charges for different villages and settlements within the region. There are also three categories of fees: residential and business fees and charges to local government institutions. Generally, the companies cover operation and maintenance costs, and capital financing is usually the issue.

Policy Implications

Local governments in principle should ideally charge the marginal cost of provision of a particular public good or service. This would not only contribute to providing the correct amount of the service to those willing to pay for it, but would also make the provision of the services financially sustainable. Furthermore, it would increase the level of political accountability and responsiveness of the local authorities towards their local citizens. The charge should ideally include capital depreciation or the amortization of new capital investments in order to make services sustainable.

TAX ADMINISTRATION

This section analyses the different stages of the tax administration cycle. It also examines the staffing and workload of the tax departments, the productivity of the staff, as well as that of the different taxes.

Local Taxes

Staffing and Workload

Most local governments have a tax administration group that works within the economic or the financial department. Only the city of Tatabánya has these functions organized at the level of a Tax Department (Table 8). The number of staff working in tax administration across the six cities ranges between 4 and 20 employees. These figures correspond to Püspökladány and Tatabánya, respectively (Tables 9A and 9B). The 97 population size of the six towns examined ranges between 17 thousand and 78 thousand inhabitants (Table 15). These figures correspond to Püspökladány and Szolnok, respectively. The population of Tatabánya is about 72 thousand. In general, the number of employees devoted to tax administration is directly related to the size of the particular town.

In principle, however, the number of staff seems low, particularly when the function of tax enforcement is taken into account.

As an indicator of the workload in tax administration, the actual magnitude of the flow of documents has been used. This magnitude ranges between 2 thousand and 28 thousand tax documents yearly. This is equivalent to saying that in Szentes, for instance, which is one of the small towns, a tax employee handles on average 333 tax documents per year (one or two documents per day). On the other hand, in Tatabánya, which is one of the large towns, an employee handles on average 1,400 tax documents per year (which is equivalent to about six documents per working day). Clearly, the tax administration officials do not seem to be overloaded. However, whether the tax administration is over or understaffed, depends not so much on what they currently do, but more on how *what* they do compared to what they *should* be doing. The performance of the tax administration is further examined in the section on Tax Assessment below.

Tax Administration Cost

Every one of the six towns provided estimates of the cost of administering local taxes. They included wages as well as other direct costs associated with tax administration (Tables 9A and 9B). The objective is to be able to compare the actual cost with actual tax collections and be able to evaluate how economical are local taxes.

The magnitude of tax administrative cost as a proportion of tax revenues fluctuates between 2.8 percent and 8.7 percent. These figures correspond to Szolnok (the largest town) and Püspökladány (the smallest town), respectively. It is interesting to note that the relative cost of tax administration tends to be lower the larger the town and conversely, it increases for smaller towns (Tables 14A, 14B, and 14C). The productivity of a tax official is clearly greater in larger towns. Also the cost of tax administration for the average town, about 3 percent of their tax collections, makes local taxation fairly economical.

Tax Administration Cycle

This section covers the four main phases of the tax administration cycle: identification, assessment, collection and enforcement.

Taxpayer Identification. In principle, taxpayers have the obligation of registering and reporting to the local tax administration their tax obligations. This is the case for the tax on buildings, the tax on idle urban land, communal taxes (on private individuals and entrepreneurs), tax on tourism and tax on businesses. The same applies to the owners of vehicles, which is a shared tax between the CG and the local government and whose collection responsibility is that of the latter.

In practice, however, the responsibility of self-registration is not always fully effective. There is always the need to purposely identify all those who are liable of tax obligations. Several ways are generally used across countries to determine whether all those who are actually registered comprise the entire population of those who are liable of tax obligations. The effectiveness in tax identification, of course, varies across local taxes depending upon its own characteristics.

In practice, and based on the reports of local tax officials (Tables 10A and 10B), the proportion of taxpayers registered of the total magnitude of potential taxpayers generally is unknown. In Nagykanizsa, the registration for taxes on buildings for non-residential property is above 90 percent; however, for residential houses in all the towns is unknown. Idle urban land is a relatively small tax base being only used by Püspökladány. In this town all those liable for idle urban land taxes have been identified and are registered. Only the town of Szentes levies a communal tax on individuals. The proportion of registered with respect to the total individuals is about 96 percent. Orosháza, Tatabánya and Nagykanizsa only levy the communal tax on entrepreneurs. In the latter, identification covers about 94 percent of potential taxpayers and for the other two towns it is unknown. Usually the tax administration knows only the number of *active* taxpayers. Those who should be registered are less known. The tax on tourism is only levied by Szentes. This is a fairly small tax base and

apparently all potential taxpayers have been identified. All the towns levy the tax on businesses. The registration rate may be between 80 and 90 percent. Finally, for the vehicle tax only two cities have estimates of the potential number of vehicles and four out of the six know how many are registered. The identification ratio fluctuates approximately between 85 and 95 percent. Chart 2 below summarizes the current situation regarding tax identification for the six selected local governments.

Chart 2

Local Taxes: Identification of Taxpayers in Selected Municipalities

Cities	Business Tax	Communal Tax	Idle Land Tax	Buildings Tax	Tourism Tax
Nagykanizsa	2,880 ^a 2,718 ^b 94% ^c	3,060 2,220 73%	N/A	3,040 N/A N/A	N/A
Oroshaza	N/A N/A N/A	N/A N/A N/A	N/A	N/A N/A N/A	N/A
Puspokladany	1,150 950 83%	N/A	22 21 95%	N/A	
Szentes	N/A 1,200 N/A	N/A N/A N/A	N/A	N/A	20 6 30%
Szolnok	N/A N/A N/A	N/A	N/A	N/A N/A N/A	N/A
Tatabanya	N/A 3,323 N/A	N/A 3,297 N/A	N/A	N/A 10,795 N/A	N/A

Notes:

a The first figure for all the cities refers to *potential* (estimated) taxpayers.

b The second figure in all the cities indicates the number of *active* taxpayers.

c This is the proportion (percent) of *active* with respect to *potential* taxpayers.

Source: Tables 10A and 10B

In general, it may be argued that for those tax bases which are relatively small and easily identifiable (such as, urban idle land and large entrepreneurs), the number of potential taxpayers is known. However, for those tax-bases which are much larger (such as residential property), the identification of the tax-base size is fairly incomplete, or simply unknown. Hence, an important task for most local governments is the identification of their potential taxpayers.

Tax Assessment. Tax administrators are supposed to determine in this phase the tax liabilities for every taxpayer, of every one of the local taxes. In practice, this step usually requires a verification of the self-assessment submitted by a taxpayer for the particular tax. The figures on Tables 10A and 10B refer to the number of taxpayers, or equivalently to the

number of tax documents. These figures are generally greater than those reported on Tables 9A and 9B on the magnitude of the flow of documents. Based on population figures for each of the towns, it seems that the data on the number of taxpayers for each of the local taxes, including the vehicle tax, more accurately reflects the actual flow of tax documents. As such, the workload of local tax officials is, and should be, much greater than the one reported on Tables 9A and 9B. This discrepancy may be due to a management information system (MIS) of flow of documents that is outdated, not adequately recording all tax documents, or that combines these two factors.

The tax on buildings would require the verification of the size (square meters) of the properties rather than their market value. This verification has to be done at least once directly in the field. The same applies to the tax on idle urban land, which is also based on size rather than market value. There is practically no assessment for communal taxes since it is the same fixed amount per dwelling, unless, different types of rates by types of dwelling are applied. Most of the above taxes are subject to tax exemptions for multiple concepts. This requires verification, at least once. In other cases, such as the tax on tourism, the tax assessment requires some kind of verification of the accuracy of the tax reported by the taxpayer. The business tax also needs some form of review to determine whether the amount reported is consistent with the tax rate and the value of the tax base. All these tasks, it seems, cannot be done adequately with the actual number of staff in the tax administration. As such, the work actually performed by local officials seems largely limited to the management of the information, without being able to actually make an adequate verification. In this sense, tax assessments are primarily self-assessments reported by the taxpayers.

Tax Collection. The business tax is the most common local tax. Businesses generally pay their taxes through bank transfers. When entrepreneurs receive their business license they have to register at the local government. The registration list is the basis for identifying business taxpayers. The local government mails a letter to those who have to pay the business tax or other kind of tax, which includes either the amount of the tax to be paid, or the tax rate and the corresponding tax base so that the taxpayer can file a tax return. Tax liabilities (or the corresponding pay order) may be paid in cash at a post office or at a bank. Therefore, taxes are collected by way of taxpayer duly meeting their obligations. Taxpayers are informed twice a year on deadlines and, in principle, on their tax balance. A brief summary of tax arrears per town is included in Chart 3 below.

Chart 3
Arrears for Selected Municipalities: Summary

Cities	Local Tax Revenues (Thousand HUF)	Total Tax Arrears (Thousand HUF)	Arrears Relative Weight (Percent)
Nagykanizsa	563,498	42,328	7.5
Oroshaza	516,932	11,334	2.2
Puspokladany	37,630	5,411	14.4
Szentes	292,497	38,540	13.2

Szolnok	916,987	60,520	6.6
Tatabanya	392,384	35,098	8.9

Source: Tables 9A and 13

Tax arrears fluctuate broadly from one municipality to another. They may be as high as 14 percent of current local tax revenues and as low as 2 percent (see Tables 9A and 9B). It should be noted, however, that the arrears refer only to those of taxpayers that have made partial payments of their tax obligations. They do not include the arrears of those who are registered, but have not made any payments at all, or those who are not even registered (i.e., have not been identified) and have pending tax obligations with the local tax administration. Therefore, the potential magnitude of tax obligations, that in principle could be collected, is greater than the arrears reported by every one of the towns.

Tax Enforcement and Penalties. Non-filers and stop-filers of tax returns are identified by comparing the list of those who have paid with those registered at the local government. Of course, this is only possible when the list is properly updated and readily available. A second source to identify non-compliance is by comparing those who have paid with the list of the registration court, or for the communal tax with the land registry. Those for which tax returns are missing are contacted by the local tax administration.

The first sanction on non-payment is levying a delay fine. In principle, failure to pay after a certain period may be sanctioned through the immediate collection of total tax due, and if this does not work, with the initiation of the procedure of withdrawing the business license. For vehicle tax the sanction is the removal of the circulation license of the vehicle. For communal and building taxes the possible sanctions are garnishment of benefits, wages, pensions, or confiscation of mobile assets (vehicles). In the case of a large amount of public debt, the taxpayer property can be mortgaged or a foreclosure request can be filed. In practice, however, these sanctions hardly ever happen.

Constraints

Briefly, the major constraints are the shortage of staff and computer capacity, which reduces operation effectiveness. A second constraint is that the towns generally do not have an enforcement officer. In this sense tax payments become practically voluntary. Furthermore, there seems to be a lack of commitment by the city administration office to strengthen the local tax administration. In addition, there is no support or agreements with other municipalities to learn from one another's experiences. Each local tax administration has had to develop its own collection and checking techniques. Last, the political will does not seem to be strong to levy more local taxes.

Conclusions and Policy Implications

First, not all local governments levy all the taxes they actually could. Second, tax compliance of those taxes actually levied is left very much to the initiative of the taxpayers to meet their obligations. Legally, there are sanctions and penalties for non-compliance, but tax enforcement is fairly weak or non-existent. Third, those who levy some of the taxes generally do not know their performance. Local governments lack estimates regarding potential number of taxpayers and updated records of those registered. Fourth, without key data and adequate reporting it is simply impossible to measure a tax administration's performance.

There is a need to make a greater and better use of local taxes. More revenues may be mobilized through more effective taxpayer's identification, tax assessment and verification, tax collection and enforcement. There is a need for greater support of local tax administrations through increases in their staff and computer equipment. There is a need for more complete and better databases for tax administration purposes. New management information systems need to be developed and implemented.

ANNEX
TABLES

Table 1
Current Features of Local Taxes as Established by the Central Government

Local Tax	Tax Base	Maximum Tax Rate Set by CG	Tax Exemption and Allowances Set by CG
<i>Tax on Buildings</i>	Are in m ² or corrected value ^a of buildings for housing and non-housing: flat, house, summer cottage, garage, storehouse, workshop, usual plot	HUF 900 per m ² or 3% of the corrected value ^a	<p>All "temporary lodgings"</p> <p>All poor social flats less than 100 m² in small municipalities except in</p> <p>Properties owned by any income-tax exempted entity (churches,</p> <p>Properties used for education, health care, social welfare, childhood care</p> <p>Supplemental premises of houses and summer cottages (e.g., buildings</p> <p>All properties with prior exemptions</p>
<i>Tax on Plot</i>	Are in m ² or corrected value ^a of inner unimproved land lots	HUF 200 per m ² or 3% of the Corrected value ^a	<p>Plots which are forbidden for construction during the time limitation of</p> <p>Area of public transport</p> <p>Usual size of plots belongs to the building (regulated in the master plan of</p> <p>Properties owned by any income-tax exempted entity (churches,</p> <p>Properties used for education, health care, social welfare, childhood care</p> <p>Safety area belongs to infrastructure track</p> <p>Plots for forest culture</p>
<i>Communal Taxes</i>			
Private Persons	Owned or rented real estate, plot	HUF 12,000 per object per year	
Entrepreneurs	Number of employed people	HUF 2,000 per year	

Table 1 (Continued)

Local Tax	Tax Base	Maximum Tax Rate Set by CG	Tax Exemption and Allowances Set by CG
<i>Tax on Tourism</i>			
Guest nights		HUF 300 per night	Private persons under 18 or above 70 Tenants in social institutions Students Employed relatives
Rent		4% of the fee	
On summer cottage		HUF 900 per m ²	
<i>Tax on Businesses</i>			
Non-temporary activity	The gross sales-receipts of products sold or services performed	1.4% ^b	
Temporary activity	Days the activity has been in operation.	HUF 5,000 per day	

Notes

a Corrected value = 50% of government-determined assessed price, which corresponds on average to 50% of actual observed market price

b 1.7% from 1999 and 2.0 percent from 2000

Tax enforcement and penalties are set by CG

Source: Act C of 1990 on Local Taxes and its modifications

Table 2
Current Features of Local Taxes in the Municipality of Nagykanizsa

Local Tax	Maximum Tax Rate Set by LG	Tax Exemption Set by LG	Tax Allowances Set by LG
<i>Tax on Buildings</i>	HUF 300 per m ²	Buildings for housing Garages	Buildings out of the inner area (average tax rate is New buildings in the 1 st year 75% of the maximum rate in the 2 nd year 50% of the maximum rate in the 3 rd year 25% of the maximum rate
<i>Tax on Plot</i>			
<i>Communal Taxes</i>			
Private Persons Entrepreneurs ^a			
<i>Tax on Tourism</i>			
Guest nights Rent Summer cottage			
<i>Tax on Businesses</i>			
Non-temporary activity	1.4%	Below HUF 500,000 net turnover.	HUF 12,000 per apprentice Deduction of 33% of the paid buildings tax New entrepreneurs in the 1 st year 100% of the maximum rate in the 2 nd year 50% of the maximum rate in the 3 rd year 25% of the maximum rate
Temporary activity	HUF 2,000 per day		

Note

a HUF 2,000 per year between 1992 and 1996

Source: Municipality of Nagykanizsa

Table 3
Current Features of Local Taxes in the Municipality of Orosháza

Local Tax	Maximum Tax Rate Set by LG	Tax Exemption Set by LG	Tax Allowances Set by LG
<i>Tax on Buildings</i>	HUF 100 per m ²	25 m ² per persons living space Single family houses below 200 m ² and If the net revenue of the owner is below Owner getting permanent social benefit Owner above 70 years All existing social organization in	Deduction of the receipt of communal investments
<i>Tax on Plot</i>			
<i>Communal Taxes</i>			
Private Persons Entrepreneurs	HUF 2,000 per year	Private entrepreneur without employees	Deduction of the receipt of communal investments
<i>Tax on Tourism</i>			
Guest nights Rent Summer cottage			
<i>Tax on Businesses</i>		New businesses below HUF 1,000,000	Deduction of the receipt of communal investments
Non-temporary activity	1.2%	New private entrepreneurs have been at least 20 persons living in Orosháza during	HUF 5,000 per apprentice Deduction the given support to existing education, of the total tax or HUF 50,000
Temporary activity	HUF 5,000 per day	Private entrepreneur without employees Agriculture until December 31, 1998	

Source: Municipality of Orosháza

Table 4
Current Features of Local Taxes in the Municipality of Püspökladány

Local Tax	Maximum Tax Rate Set by LG	Tax Exemption Set by LG	Tax Allowances Set by LG
<i>Tax on Buildings</i>			
<i>Tax on Plot</i>	HUF 15 per m ²		
<i>Communal Taxes</i>			
Private Persons			
Entrepreneurs			
<i>Tax on Tourism</i>			
Guest nights			
Rent			
Summer cottage			
<i>Tax on Businesses</i>			
Non-temporary activity	1.3%	New businesses in the 1 st year.	HUF 1,000 per apprentice but not more than the 50%
Temporary activity	HUF 5,000 per day		

Source: Municipality of Püspökladány

Table 5
Current Features of Local Taxes in the Municipality of Szentes

Local Tax	Maximum Tax Rate Set by LG	Tax Exemption Set by LG	Tax Allowances Set by LG
<i>Tax on Buildings</i>			
<i>Tax on Plot</i>			
<i>Communal Taxes</i>			
Private Persons	HUF 2,000 per year	People above 70 years 100% of handicapped people Flats on plot without infrastructure facilities out By the number of people living in the flat 1 room flat with at least 2 persons 1,5 rooms flat with at least 4 persons 2 rooms flat with at least 6 persons 3 rooms flat with at least 7 persons	Deduction of the receipt of communal
<i>Entrepreneurs</i>			
<i>Tax on Tourism</i>			
Guest nights	HUF 100 per night		The paid tourism tax may deducted from the
<i>Rent</i>			
<i>Summer cottage</i>			
<i>Tax on Businesses</i>			
Non-temporary activity	1.1%	New businesses if their profit is less than the Businesses below HUF 2,000,000 turnover Health, social and education activities	25% of the maximum tax rate for new ould be paid in the next year.)
<i>Temporary activity</i>			

Source: Municipality of Szentes

Table 6
Current Features of Local Taxes in the Municipality of Szolnok

Local Tax	Maximum Tax Rate Set by LG	Tax Exemption Set by LG	Tax Allowances Set by LG
<i>Tax on Buildings</i>	HUF 200 per m ²	Garages and summer cottages owned by	
<i>Tax on Plot</i>			
<i>Communal Taxes</i>			
Private Persons Entrepreneurs			
<i>Tax on Tourism</i>			
Guest nights Rent Summer cottage			
<i>Tax on Businesses</i>			
Non-temporary activity	1.3%	Catering for children and students Owner if the rent is for housing purposes	If businesses supported municipal funds Employing people who had previously been Employing handicapped people Employing apprentices throughout the year
Temporary activity			

Source: Municipality of Szolnok

Table 7
Current Features of Local Taxes in the Municipality of Tatabánya

Local Tax	Maximum Tax Rate Set by LG	Tax Exemption Set by LG	Tax Allowances Set by LG
<i>Tax on Buildings</i>	HUF 160 per m ²	25 m ² per persons living space First own flat	If the levied tax is below HUF 1,000 Deduction of the receipt of communal Support of local foundations (maximum 10%)
<i>Tax on Plot</i>			
<i>Communal Taxes</i>			
Private Persons			
Entrepreneurs	HUF 2,000 per year	New businesses in the first year Businesses located in the Industrial Park (10	If the levied tax is below HUF 1,000 50% of the maximum tax rate for new
<i>Tax on Tourism</i>			
Guest nights Rent Summer cottage			
<i>Tax on Businesses</i>		New businesses in the first year (If its tax extra year exempted from the taxation)	If the levied tax is below HUF 1,000 30% of the maximum tax rate for new
Non-temporary activity	1.4%	New businesses get extra year exemption in the economic structure of the city	Support of local foundations (maximum 10%)
Temporary activity	HUF 3,000 per day		

Source: Municipality of Tatabánya

Table 8
Current Features of the Local Tax Administration Organization System and Tasks in the Selected Municipalities

Municipalities	Organization system
Nagykanizsa	Tax Group within the Economic Department
Orosháza	Tax Group within the Financial Department
Püspökladány	Tax Group within the City Management Office
Szentes	Tax Group within the Economic Department
Szolnok	Tax Department within the Economic Major Department
Tatabánya	Tax Department

Source: Questionnaire

Table 9A
Quantitative Information on Local Tax Administration in the Selected Municipalities

	1993	1994	1995	1996	1997
NAGYKANIZSA					
<i>Number of employees:</i>	8	9	12	12	12
Local taxes	3	3	5	5	5
Vehicle tax	3	4	4	4	4
Other	2	2	3	3	3
<i>Flow of documents:</i>	8,064	8,282	11,601	10,250	11,388
Local taxes	2,392	2,393	5,847	4,947	4,832
Vehicle tax	5,009	5,168	5,029	4,426	5,632
Other	663	721	725	877	924
<i>Estimated cost of local tax administration:</i>	6,029	9,430	13,951	16,269	18,693
Wages (thousand HUF)	5,366	8,470	12,420	14,650	16,894
Other (thousand HUF)	663	960	1,531	1,619	1,799
Sum of cumulated arrears (thousand HUF)	7,247	15,144	38,823	41,277	42,328
Collected default interest (thousand HUF)	2,367	3,431	6,972	6,188	7,911
Number of proceeding of distraining	162	212	112	186	394
OROSHÁZA					
<i>Number of employees:</i>	10	10	10	10	10
Local taxes					
Vehicle tax					
Other					
<i>Flow of documents:</i>	4,252	6,898	8,046	8,840	8,912
Local taxes					
Vehicle tax					
Other					
<i>Estimated cost of local tax administration:</i>	12,196	13,667	15,785	20,192	16,614
Wages	6,166	6,837	6,325	7,462	8,844
Other	6,030	6,830	9,460	12,730	7,770
Sum of cumulated arrears	4,340	4,448	5,923	10,943	11,334
Collected default interest	1,668	1,087	2,326	3,786	4,102
Number of proceeding of distraining	209	169	200	338	411
PÜSPÖKLADÁNY					
<i>Number of employees:</i>	3	3	4	4	4
Local taxes					
Vehicle tax					
Other					
<i>Flow of documents:</i>	10,874	11,392	12,857	16,718	15,309
Local taxes	344	814	1,147	1,284	1,520
Vehicle tax	989	976	993	2,894	968
Other	9,541	9,602	10,717	12,540	12,821
<i>Estimated cost of local tax administration:</i>	2,255	2,788	2,964	4,040	4,695
Wages	1,041	1,302	2,203	2,760	3,372
Other	1,214	1,486	761	1,280	1,323
Sum of cumulated arrears	2,557	3,582	3,600	2,179	5,411
Collected default interest	182	223	210	2,329	1,279
Number of proceeding of distraining	14	21	18	10	25

Source: Questionnaire applied in the selected municipalities

Table 9B
Quantitative Information on Local Tax Administration in the Selected Municipalities

	1993	1994	1995	1996	1997
SZENTES					
<i>Number of employees:</i>	4	4	5	6	6
Local taxes	1	1	1	2	2
Vehicle tax	1	1	1	1	1
Other	2	2	3	3	3
<i>Flow of documents:</i>	2,656	3,132	2,840	3,562	2,203
Local taxes	532	718	446	2,237 ^a	439
Vehicle tax	1,220	1,866	1,757	1,157	1,447
Other	904	548	637	168	317
<i>Estimated cost of local tax administration:</i>	5,009	5,130	6,408	8,014	10,149
Wages	1,966	2,570	3,555	5,131	6,104
Other	3,043	2,560	2,853	2,883	4,045
Sum of cumulated arrears	11,034	23,807	48,662	67,036	38,540
Collected default interest	1,690	2,212	4,290	6,225	30,129
Number of proceeding of distraining	38	28	161	97	
SZOLNOK					
<i>Number of employees:</i>	16	16	16	16	16
Local taxes					
Vehicle tax					
Other					
<i>Flow of documents:</i>	8.942	8.379	14.201	16.139	17.915
Local taxes					
Vehicle tax					
Other					
<i>Estimated cost of local tax administration:</i>	13.208	15.863	17.743	24.353	27.527
Wages	11.450	14.029	16.667	21.375	25.695
Other	1.758	1.834	1.076	2.978	1.832
Sum of cumulated arrears	29.941	37.927	58.738	80.335	60.520
Collected default interest	2.738	7.189	21.960	18.126	17.667
Number of proceeding of distraining	1.501	1.782	2.538	3.425	3.940
TATABÁNYA					
<i>Number of employees:</i>	13	13	14	17	20
Local taxes					7
Vehicle tax					4
Other					9
<i>Flow of documents:</i>	13.572	19.136	23.890	44.705	28.331
Local taxes	3.619	7.149	10.982	22.133	14.683
Vehicle tax	8.801	8.557	9.145	19.944	10.708
Other	1.152	3.430	3.763	2.628	2.850
<i>Estimated cost of local tax administration:</i>	13.771	14.774	16.573	20.082	24.335
Wages	6.500	7.200	8.600	11.600	15.500
Other	7.271	7.574	7.973	8.482	8.835
Sum of cumulated arrears	24.521	18.815	19.138	38.565	35.098
Collected default interest	3.679	4.150	6.589	7.131	8.176
Number of proceeding of distraining					80

Note

a There was a survey related to business tax

Source: Questionnaire applied in the selected municipalities

Table 10A
Tax Records: Potential, Registered, and Active Taxpayers in the Selected Municipalities

	1993			1994			1995			1996			1997		
Local Taxes	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
<i>Tax on Buildings</i>															
Orosháza		3,333			3,430			3,464			3,682			3,842	
Tatabánya			9,575			8,234			10,058			10,276			10,795
Residential houses															
Non-residential houses															
Nagykanizsa							2,950	1,516	1,349	3,020	2,750	2,512	3,040	2,835	2,616
Szolnok		489			589			784			699			817	
<i>Tax on Plot</i>															
Püspökladány	40	40	40	41	41	41	42	42	42	37	37	37	22	22	21
<i>Communal Taxes</i>															
Private Persons															
Szentes											12,328			14,034	
Entrepreneurs															
Nagykanizsa	1,650	1,521	1,374	1,910	1,820	1,661	2,780	2,761	2,607	3,756	3,640	2,820	3,060	2,906	2,220
Orosháza		1,069			1,265			1,486			1,584			1,569	
Tatabánya			1,631			897			1,212			2,341			3,297
<i>Tax on Tourism</i>															
Guest nights															
Szentes													20	20	6
Rent															
Summer cottage															
<i>Tax on Businesses</i>															
Non-temporary activity															
Nagykanizsa	1,450	1,358	1,058	1,520	1,465	1,387	2,750	2,656	2,518	2,740	2,659	2,519	2,880	2,821	2,718
Orosháza								688			951			1,121	
Püspökladány							940	835	560	980	910	700	1,150	1,100	950
Szentes		1,000	250		1,400	600		1,500	800		1,700	1,000		1,700	1,200
Szolnok		1,943			3,020			4,281			4,952			6,012	
Tatabánya			1,631			1,120			2,016			2,855			3,323
Temporary activity															

Notes

(1) Number of potential (estimated) tax payers/tax objectives

(2) Number of registered tax payers/tax objectives

(3) Number of active tax payers/tax objectives

Source: Questionnaire applied in the selected municipalities

Table 10B**Tax Records: Potential, Registered, and Active Taxpayers in the Selected Municipalities**

	1993			1994			1995			1996			1997		
Shared Tax	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
<i>Vehicle tax</i>															
Nagykanizsa	12,620	12,306	11,907	12,650	12,504	11,848	12,620	12,470	11,958	12,750	12,676	12,101	12,800	12,708	12,171
Orosháza		6,423			6,687			6,689			6,233			6,229	
Püspökladány	2,080	1,892	1,800	2,180	1,989	1,790	2,150	1,921	1,730	2,260	1,962	1,770	2,290	1,908	1,717
Szentes		15,253			15,824			16,021			15,032			14,225	
Szolnok			14,384			14,037			15,924			15,405			17,277
Tatabánya															

Notes

(1) Number of potential (estimated) tax payers/tax objectives

(2) Number of registered tax payers/tax objectives

(3) Number of active tax payers/tax objectives

Source: Questionnaire applied in the selected municipalities

Table 11A
Budgeted and Executed Tax Revenue Collection in the Selected Municipalities (thousand HUF)

Local Taxes	Year in Force	1993		1994		1995		1996		1997	
		(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Tax on Buildings											
Orosháza	1992	12,000	13,846	14,000	12,624	14,000	14,000	32,600	31,000	32,600	30,200
Tatabánya	1992	25,000	22,000	24,000	17,000		30,000		66,000	60,000	76,628
Residential houses											
Non-residential houses											
Nagykanizsa	1995					80,000	111,500	120,000	130,241	135,385	137,385
Szolnok	1992	30,000	81,600	80,000	36,684	57,000	57,095	122,000	61,658	80,000	129,200
Tax on Plot											
Püspökladány	1992	3,000	2,834	2,300	2,453	2,500	2,100	3,000	2,344	3,000	1,438
Communal Taxes											
Private Persons											
Szentes	1996							18,000	14,167	36,000	20,900
Entrepreneurs											
Nagyakanizsa	1992	30,000	35,046	35,000	35,500	37,400	37,406	35,000	34,905		3,334
Orosháza	1991	23,000	18,221	21,000	21,307	21,000	25,266	21,000	20,400	21,000	18,900
Tatabánya	1992	15,000	24,000	24,000	25,000		25,722		21,200	24,000	24,000
Tax on Tourism											
Guest nights											
Szentes											
Rent											
Summer cottage											
Tax on Businesses											
Non-temporary activity											
Nagykanizsa	1992	65,000	92,330	125,000	142,200	175,200	189,738	250,000	282,467	410,797	420,837
Orosháza	1995					70,000	163,500	268,447	343,923	300,000	467,832
Püspökladány	1995					5,500	15,242	16,000	35,942	32,000	36,198
Szentes	1992	18,000	51,503	52,000	86,915	90,000	135,317	101,000	179,793	170,000	271,597
Szolnok	1992	80,000	242,932	240,000	245,781	203,000	372,495	380,000	641,871	680,000	787,787
Tatabánya	1991	130,000	124,923	146,000	151,918		150,352		196,540	276,000	291,756
Temporary activity											
Nagykanizsa	1996								1,098		1,942

Notes

(1) Planned

(2) Realized

Source: Questionnaire applied in the selected municipalities

Table 11B
Budgeted and Executed Tax Revenue Collection in the Selected Municipalities (thousand HUF)

Shared Tax	(A)	1993		1994		1995		1996		1997	
		(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
<i>Vehicle tax</i>											
Nagykanizsa	1992	17,000	17,216	17,000	16,948	16,200	16,290	50,200	51,530	53,818	54,890
Orosháza	1992	9,236	8,161	9,500	8,792	9,500	7,796	26,000	37,711	33,000	36,193
Püspökladány	1992	2,500	4,095	1,700	4,566	1,700	4,440	15,000	14,060	15,000	14,749
Szentes	1992	8,000	8,480	9,000	8,377	9,000	9,716	21,000	20,497	21,000	21,312
Szolnok	1992	30,208	25,793	25,000	26,298	23,000	19,327	40,000	45,907	49,000	46,700
Tatabánya	1992		17,721		16,017	18,154	15,530	45,000	43,291	50,000	50,189

Notes

(A) Tax has gone into force

(1) Planned

(2) Realized

Source: Questionnaire applied in the selected municipalities

Table 12A
Distribution of Local Tax Revenue in the Selected Municipalities (in percent)

	1993	1994	1995	1996	1997
Nagykanizsa					
Tax on Buildings	0.0	0.0	32.9	29.0	24.4
Communal tax	27.5	20.0	11.0	7.8	0.6
Tax on Businesses	72.5	80.0	56.0	63.2	75.0
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Orosháza					
Tax on Buildings	43.2	37.2	6.9	7.8	5.8
Communal tax	56.8	62.8	12.5	5.2	3.7
Tax on Businesses	0.0	0.0	80.6	87.0	90.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Püspökladány					
Tax on Plot	100.0	100.0	12.1	6.1	3.8
Tax on Businesses	0.0	0.0	87.9	93.9	96.2
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Szentes					
Communal tax	0.0	0.0	0.0	7.5	7.1
Tax on Businesses	100.0	100.0	100.0	92.7	92.9
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.2</i>	<i>100.0</i>
Szolnok					
Tax on Buildings	25.1	13.0	13.4	8.8	14.1
Tax on Businesses	74.9	87.0	87.7	91.2	85.9
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>101.2</i>	<i>100.0</i>	<i>100.0</i>
Tatabánya					
Tax on Buildings	12.9	8.8	14.6	23.3	19.5
Communal tax	14.0	12.9	12.5	7.5	6.1
Tax on Businesses	73.1	78.3	73.0	69.3	74.4
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Municipalities of Nagykanizsa, Orosháza, Püspökladány, Szentes, Szolnok, and Tatabánya

Table 12B
Distribution of Local Tax Revenue in Hungary (in percent)

Country Total	1993	1994	1995	1996	1997
Tax on Buildings	9.6	9.6	8.9	10.3	9.7
Tax on Plot	1.7	2.1	1.8	1.6	1.5
Communal Tax	5.9	5.0	3.9	3.3	2.8
Tax on Tourism	3.4	3.1	2.4	2.4	2.2
Tax on Businesses	78.6	80.2	82.3	81.8	83.1
Other	0.8	0.0	0.6	0.5	0.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Ministry of Finance

Table 13
Share of Local Tax Revenue in the Local Budget in the Selected Municipalities

	1993	1994	1995	1996	1997
Total annual revenues of LGs (thousand HUF)					
Nagykanizsa	1,313,014	1,661,832	2,139,929	2,710,672	3,318,466
Orosháza	2,320,736	3,162,751	3,657,759	3,670,718	4,911,318
Püspökladány	707,551	906,581	1,020,958	1,220,639	1,361,645
Szentes	1,387,889	1,529,847	1,818,836	2,709,031	2,753,033
Szolnok	4,442,819	5,395,037	6,094,279	7,944,393	10,370,554
Tatabánya	3,359,829	4,513,015	4,850,735	5,840,081	6,515,122
<i>Country Total</i>	<i>618,110,420</i>	<i>805,771,017</i>	<i>909,914,381</i>	<i>1,152,755,650</i>	<i>1,552,264,259</i>
Local tax revenues (thousand HUF)					
Nagykanizsa	127,376	177,700	338,644	448,711	563,498
Orosháza	32,067	33,931	202,766	395,323	516,932
Püspökladány	2,834	2,453	17,342	38,286	37,630
Szentes	51,503	86,915	135,317	193,960	292,497
Szolnok	324,532	282,465	424,521	703,529	916,987
Tatabánya	164,633	197,000	206,074	283,740	392,384
<i>Country Total</i>	<i>27,100,000</i>	<i>33,992,000</i>	<i>46,377,000</i>	<i>80,813,000</i>	<i>111,161,523</i>
Share of local taxes in the actual budget (percent)					
Nagykanizsa	9.7	10.7	15.8	16.6	17.0
Orosháza	1.4	1.1	5.5	10.8	10.5
Püspökladány	0.4	0.3	1.7	3.1	2.8
Szentes	3.7	5.7	7.4	7.2	10.6
Szolnok	7.3	5.2	7.0	8.9	8.8
Tatabánya	4.9	4.4	4.2	4.9	6.0
<i>Country Total</i>	<i>4.4</i>	<i>4.2</i>	<i>5.1</i>	<i>7.0</i>	<i>7.2</i>

Source: Questionnaire and TÁKISZ

Table 14A
Estimated Costs of Local Tax Administration in the Selected Municipalities (thousand HUF)

	1993	1994	1995	1996	1997
Nagykanizsa					
Local Taxes	127,376	177,700	338,644	448,711	563,498
Vehicle Tax	17,216	16,948	16,290	51,530	54,890
Collected Default Interest	2,367	3,431	6,972	6,188	7,911
<i>Collected Tax Revenues</i>	<i>146,959</i>	<i>198,079</i>	<i>361,906</i>	<i>506,429</i>	<i>626,299</i>
<i>Estimated Costs of Local Tax Administration</i>	<i>6,206</i>	<i>9,430</i>	<i>13,951</i>	<i>16,269</i>	<i>18,693</i>
Share of Costs in Tax Revenues (percent)	4.2	4.8	3.9	3.2	3.0
Orosháza					
Local Taxes	32,067	33,931	202,766	395,323	516,932
Vehicle Tax	8,161	8,792	7,796	37,711	36,193
Collected Default Interest	1,668	1,087	2,326	3,786	4,102
<i>Collected Tax Revenues</i>	<i>41,896</i>	<i>43,810</i>	<i>212,888</i>	<i>436,820</i>	<i>557,227</i>
<i>Estimated Costs of Local Tax Administration</i>	<i>12,196</i>	<i>13,667</i>	<i>15,785</i>	<i>20,192</i>	<i>16,614</i>
Share of Costs in Tax Revenues (percent)	29.1	31.2	7.4	4.6	3.0
Püspökladány					
Local Taxes	2,834	2,453	17,342	38,286	37,630
Vehicle Tax	4,095	4,566	4,440	14,060	14,749
Collected Default Interest	182	223	210	2,329	1,279
<i>Collected Tax Revenues</i>	<i>7,111</i>	<i>7,242</i>	<i>21,992</i>	<i>54,675</i>	<i>53,658</i>
<i>Estimated Costs of Local Tax Administration</i>	<i>2,255</i>	<i>2,788</i>	<i>2,964</i>	<i>4,040</i>	<i>4,695</i>
Share of Costs in Tax Revenues (percent)	31.7	38.5	13.5	7.4	8.7
Szentes					
Local Taxes	51,503	86,915	135,317	193,960	292,497
Vehicle Tax	8,480	8,377	9,716	20,497	21,312
Collected Default Interest	1,690	2,212	4,290	6,225	30,129
<i>Collected Tax Revenues</i>	<i>61,673</i>	<i>97,504</i>	<i>149,323</i>	<i>220,682</i>	<i>343,938</i>
<i>Estimated Costs of Local Tax Administration</i>	<i>5,009</i>	<i>5,130</i>	<i>5,408</i>	<i>8,014</i>	<i>10,149</i>
Share of Costs in Tax Revenues (percent)	8.1	5.3	3.6	3.6	3.0

Source: Municipalities of Nagykanizsa, Orosháza, Püspökladány, and Szentes

Table 14B
Estimated Costs of Local Tax Administration in the Selected Municipalities (thousand HUF)

	1993	1994	1995	1996	1997
Szolnok					
Local Taxes	324532	282465	424521	703529	916987
Vehicle Tax	25793	26296	19327	45907	46700
Collected Default Interest	2735	7189	21960	18126	17667
<i>Collected Tax Revenues</i>	<i>353060</i>	<i>315950</i>	<i>465808</i>	<i>767562</i>	<i>981354</i>
<i>Estimated Costs of Local Tax Administration</i>	<i>13208</i>	<i>15863</i>	<i>17743</i>	<i>24353</i>	<i>27527</i>
Share of Costs in Tax Revenues (percent)	3.7	5.0	3.8	3.2	2.8
Tatabánya					
Local Taxes	164633	197000	206074	283740	392384
Vehicle Tax	17721	16017	15530	43291	50189
Collected Default Interest	3679	4150	6589	7131	8176
<i>Collected Tax Revenues</i>	<i>186033</i>	<i>217167</i>	<i>228193</i>	<i>334162</i>	<i>450749</i>
<i>Estimated Costs of Local Tax Administration</i>	<i>13771</i>	<i>14774</i>	<i>16573</i>	<i>20082</i>	<i>24335</i>
Share of Costs in Tax Revenues (percent)	7.4	6.8	7.3	6.0	5.4

Source: Municipalities of Szolnok and Tatabánya

Table 14C
Estimated Costs of Local Tax Administration in the Selected Municipalities (in percent)^a

	1993	1994	1995	1996	1997
Nagykanizsa	4.2	4.8	3.9	3.2	3.0
Orosháza	29.1	31.2	7.4	4.6	3.0
Püspökladány	31.7	38.5	13.5	7.4	8.7
Szentes	8.1	5.3	3.6	3.6	3.0
Szolnok	3.7	5.0	3.8	3.2	2.8
Tatabánya	7.4	6.8	7.3	6.0	5.4

Note

a The share of estimated costs of local tax administration in the collected tax revenues (percent)

Source: Municipality of Tatabánya

Table 15
Per Capita Local Tax Revenues in the Selected Municipalities

	1993	1994	1995	1996	1997
Number of Inhabitants					
Nagykanizsa	53,290	53,060	53,353	52,976	52,574
Orosháza	33,862	33,789	33,527	33,287	32,944
Püspökladány	16,092	15,986	16,428	16,361	16,397
Szentes	32,237	32,086	31,975	31,814	31,612
Szolnok	80,220	80,859	78,504	78,398	78,511
Tatabánya	73,648	73,505	73,239	72,510	72,207
<i>Country Total</i>	<i>10,310,179</i>	<i>10,276,968</i>	<i>10,245,677</i>	<i>10,212,300</i>	<i>10,174,442</i>
<i>Country Total without Budapest</i>	<i>8,301,633</i>	<i>8,281,272</i>	<i>8,315,663</i>	<i>8,305,502</i>	
Total Local Tax Revenue (thousand HUF)					
Nagykanizsa	127,376	177,700	338,644	448,711	563,498
Orosháza	32,067	33,931	202,766	395,323	516,932
Püspökladány	2,834	2,453	17,342	38,286	37,630
Szentes	51,503	86,915	135,317	193,960	292,497
Szolnok	324,532	282,465	424,521	703,529	916,987
Tatabánya	164,633	197,000	206,074	283,740	392,384
<i>Country Total</i>	<i>27,100,000</i>	<i>33,992,000</i>	<i>46,377,000</i>	<i>80,813,000</i>	<i>111,294,000</i>
<i>Country Total without Budapest</i>	<i>14,425,046</i>	<i>18,513,899</i>	<i>26,001,389</i>	<i>45,785,490</i>	
Per Capita Local Tax Revenue					
Nagykanizsa	2,390	3,349	6,347	8,470	10,718
Orosháza	947	1,004	6,048	11,876	15,691
Püspökladány	176	153	1,056	2,340	2,295
Szentes	1,598	2,709	4,232	6,097	9,253
Szolnok	4,046	3,493	5,408	8,974	11,680
Tatabánya	2,235	2,680	2,814	3,913	5,434
<i>Country Average</i>	<i>2,628</i>	<i>3,308</i>	<i>4,526</i>	<i>7,913</i>	<i>10,939</i>
<i>Country Total without Budapest</i>	<i>1,738</i>	<i>2,236</i>	<i>3,127</i>	<i>5,513</i>	

Source: Central Statistical Office, Questionnaire, and TÁKISZ

Table 16
Local Tax Revenues per Taxpayer in the Selected Municipalities (in percent)

	1993	1994	1995	1996	1997
Building Tax					
Nagykanizsa			82.7	51.8	52.5
Orosháza	4.2	3.7	4.0	8.4	7.9
Szolnok	166.9	62.3	72.7	88.2	158.1
Tatabánya	2.3	2.1	3.0	6.4	7.1
Tax on Plot					
Püspökladány	70.9	59.8	50.0	63.4	68.5
Communal Tax					
Nagykanizsa	25.5	21.4	14.3	12.4	1.5
Orosháza	17.0	16.8	17.0	12.9	12.0
Szentes				1.7	2.1
Tatabánya	14.7	27.9	21.2	9.1	7.3
Business Tax					
Nagykanizsa	87.3	102.5	75.4	112.6	155.5
Orosháza			237.6	361.6	417.3
Püspökladány			27.2	51.3	32.9
Szentes	206.0	144.9	169.1	179.8	226.3
Szolnok	125.0	81.4	87.0	129.6	131.0
Tatabánya	76.6	135.6	74.6	68.8	87.8

Source: Questionnaire

Table 17
Local Tax Revenues per Tax Administrator in the Selected Municipalities

	1993	1994	1995	1996	1997
Nagykanizsa					
<i>Collected Tax Revenues (thousand HUF)</i>	146,959	198,079	361,906	506,429	626,299
<i>Number of Tax Administrators</i>	8	9	12	12	12
<i>Per Capita Collected Tax Revenues</i>	18,370	22,009	30,159	42,202	52,192
Orosháza					
<i>Collected Tax Revenues (thousand HUF)</i>	41,896	43,810	212,888	436,820	557,227
<i>Number of Tax Administrators</i>	10	10	10	10	10
<i>Per Capita Collected Tax Revenues</i>	4,190	4,381	21,289	43,682	55,723
Püspökladány					
<i>Collected Tax Revenues (thousand HUF)</i>	7,111	7,242	21,992	54,675	53,658
<i>Number of Tax Administrators</i>	3	3	4	4	4
<i>Per Capita Collected Tax Revenues</i>	2,370	2,414	5,498	13,669	13,415
Szentes					
<i>Collected Tax Revenues (thousand HUF)</i>	61,673	9,7504	149,323	220,682	343,938
<i>Number of Tax Administrators</i>	4	4	5	6	6
<i>Per Capita Collected Tax Revenues</i>	15,418	24,376	29,865	36,780	57,323
Szolnok					
<i>Collected Tax Revenues (thousand HUF)</i>	353,060	315,950	465,808	767,562	981,354
<i>Number of Tax Administrators</i>	16	16	16	16	16
<i>Per Capita Collected Tax Revenues</i>	22,066	19,747	29,113	47,973	61,335
Tatabánya					
<i>Collected Tax Revenues (thousand HUF)</i>	193,323	214,085	228,193	334,162	450,749
<i>Number of Tax Administrators</i>	13	13	14	17	20
<i>Per Capita Collected Tax Revenues</i>	14,794	16,468	16,300	19,657	22,537

Source: Municipalities of Nagykanizsa, Orosháza, Püspökladány, Szentes, Szolnok, and Tatabánya

Table 18A

Quantitative Information on Local Tax Administration: Relation of Local Tax Rate to the Maximum Rate Set by CG in the Selected Municipalities (in percent)

	1991	1992	1993	1994	1995	1996	1997	1998
Tax on Buildings								
<i>Maximum rate set by CG (HUF per m²)</i>	300	300	300	300	300	900 ^b	900 ^b	900 ^b
Nagykanizsa (N-R)					100.0	33.3	33.3	33.3
Orosháza (R)		10.0	10.0	10.0	10.0	7.8 ^b	7.8 ^b	7.8 ^b
Orosháza (N-R) ^a		13.3	13.3	13.3	13.3	11.1 ^b	11.1 ^b	11.1 ^b
Szolnok (N-R)		33.3	33.3	33.3	33.3	22.2 ^b	22.2 ^b	22.2 ^b
Tatabánya (R)		10.0	10.0	10.0	10.0	11.1 ^b	11.1 ^b	11.1 ^b
Tatabánya (N-R)		16.6	16.6	16.6	16.6	16.6 ^b	16.6 ^b	17.8 ^b
Tax on Plots								
<i>Maximum rate set by CG (HUF per m²)</i>	100	100	100	100	100	200 ^b	200 ^b	200 ^b
Püspökladány		10.0 ^a	15.0 ^b	15.0 ^b	15.0 ^b	7.5 ^b	7.5 ^b	7.5 ^b
Communal Tax (P)								
<i>Maximum rate set by CG (HUF per object)</i>	3,000	3,000	3,000	3,000	3,000	12,000 ^b	12,000 ^b	12,000 ^b
Szentes						16.6 ^b	16.6 ^b	16.6 ^b
Communal Tax (E)								
<i>Maximum rate set by CG (HUF per employees)</i>	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Nagykanizsa		100.0	100.0	100.0	100.0	100.0		
Orosháza	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tatabánya		100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax on Tourism (G)								
<i>Maximum rate set by CG (HUF per guest night)</i>	100	100	100	100	100	300 ^b	300 ^b	300 ^b
Szentes								33.3

Notes

a Rate set by different categories

b Indicates a change in rate

Table 18B

Quantitative Information on Local Tax Administration: Relation of Local Tax Rate to the Maximum Rate Set by CG in the Selected Municipalities (in percent)

	1991	1992	1993	1994	1995	1996	1997	1998
Business Tax (P)								
<i>Maximum rate set by CG (rate on net revenues)</i>	0.3	0.3	0.8 ^b	0.8 ^b	0.8 ^b	1.2 ^b	1.2 ^b	1.4 ^b
Nagykanizsa		66.6	75.0 ^b	100.0 ^b	100.0 ^b	66.6 ^b	83.3 ^b	100.0 ^b
Orosháza ^a					100.0	100.0 ^b	100.0 ^b	85.7 ^b
Püspökladány ^a					100.0	66.6	66.6	92.9 ^b
Szentes			75.0	75.0	75.0	66.6 ^b	100.0 ^{ab}	78.6 ^{ab}
Szolnok		33.3	100.0 ^{ab}	100.0 ^{ab}	100.0 ^{ab}	66.6 ^b	66.6 ^b	92.9 ^b
Tatabánya	100.0	100.0	37.5	62.5 ^b	100.0 ^{ab}	100.0 ^{ab}	100.0 ^{ab}	100.0 ^{ab}
Business Tax (T)								
<i>Maximum rate set by CG (HUF per day)</i>	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Nagykanizsa						20.0	40.0 ^b	40.0 ^b
Orosháza								100.0
Püspökladány						10.0	10.0	100.0 ^{ab}
Tatabánya	20.0	0.3 ^b	0.3 ^b	0.5 ^b	0.5 ^b	0.5 ^b	0.5 ^b	60.0 ^b

Notes

a Rate set by different sectors

b Indicates a change in rate

Source: Questionnaire